American Federation of Labor and Congress of Industrial Organizations

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August 7, 1998

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Ms. Magalie Roman Salas, Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

ORIGINAL

RE: Ex Parte Notice
CC Docket No. 97-211 (Applications of WorldCom and MCI for Transfer of Control of MCI to WorldCom)

Dear Ms. Salas:

On August 7, 1998, the attached letter was sent to Chairman William Kennard expressing concern regarding the negative impact of the MCI-WorldCom merger on consumers in the local exchange market. The letter was signed by John Sweeney, President, AFL-CIO; Steve Protulis, Executive Director, National Council of Senior Citizens; and Rev. Joan Brown Campbell, National Council of Churches.

In accordance to the Commission's rules, I submit two copies of this notice and the letter.

Sincerely,

Damon A. Silvers
Associate General Counsel

DS:elk
Enclosures

cc: Michelle Carey
opeiu2,aflcio

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EX PARTE OR LATE FILED

August 7, 1998

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ORIGINAL

The Honorable William E. Kennard
Chairman
Federal Communications Commission
1919 M St. N.W., Room 814
Washington, D.C. 20554

Re: In the Matter of Applications of WorldCom, Inc. and MCI Communications Corporation for Transfer of Control of MCI Communications Corporation to WorldCom, Inc.
CC Docket No. 97-211

Dear Chairman Kennard:

As representatives of consumer, religious, and labor organizations representing 66 million American consumers, we write to express our views that the proposed merger between MCI and WorldCom will harm residential consumers and should not be approved.

In this letter, we focus on the impact of the merger on consumers in the local residential market, although we also believe that the merger poses serious problems to consumers in the Internet and long distance markets.

Since passage of the Telecommunications Act of 1996 two years ago, the telecommunications industry has seen a wave of big mergers. The Commission has the statutory obligation to review each proposed merger to ensure that it is in public interest. As we discuss below, this merger is most certainly not in the public interest and should be rejected.

Commission precedent establishes at least two important public interest standards against which to evaluate a proposed merger:

- Does the merger enhance competition?
- Does the merger promote the goals of the 1996 Act "to secure lower prices and higher quality services for American telecommunications consumers and encourage the rapid deployment of new telecommunications technologies" for all Americans?

We conclude that the answer to both these questions is a resounding NO. The merger does not enhance competition for most telecommunications consumers. And the merger most definitely does not promote provision of affordable, quality telecommunications service and network upgrading for all Americans.

Rather, this deal will result in a merged entity that will abandon MCI's pre-merger plans to build facilities to compete for local residential customers. Instead of "friends and family," the merged

MCI-WorldCom will focus exclusively on networks which provide end-to-end service to business customers, arbitraging "access charges" utilized to subsidize local service.

MCI and WorldCom have told the Commission that the merger will benefit American consumers by creating a strong local competitor. But a merged MCI-WorldCom does not plan to build networks to compete for <u>all</u> segments of the local market. Rather, as MCI and WorldCom CEOs Bert C. Roberts and Bernard J. Ebbers wrote to you in their letter of Jan. 26, 1998, the merged company will only compete in the local market "where business opportunities" exist.

And for the merged MCI and WorldCom, local market "business opportunities" will focus exclusively on the lower-cost, more lucrative business market. The evidence shows that MCI and WorldCom have absolutely no plans to compete for local residential consumers.

First as evidence, we note that MCI and WorldCom have told their shareholders that the merged company will retreat from the local consumer market. In early Nov., 1997, MCI and WorldCom reported in documents filed with the Securities and Exchange Commission that the merged company will reduce what stand-alone MCI would have spent in the local loop by <u>**$5.3 billion**</u> in the first four years after the merger. (WorldCom SEC Form 8-K, Nov. 9, 1997, Exhibit 99.3) According to these documents, absent the merger, MCI would have spent $2.0 billion more to build local networks and $3.3 billion more in marketing and customer service in the local exchange. We emphasize that this $5.3 billion in reduced local spending reflects a change in business strategy, not just efficiency savings.

As further evidence, we cite the study recently released by the Communications Workers of America, entitled, "Taking MCI Out of Local Competition." This report documents that the finances of the combined MCI-WorldCom will <u>never</u> support business strategies aimed at building networks to serve residential consumers in the local market.

Rather, the $28.6 billion premium price that WorldCom is paying for MCI, the increased $7.4 billion debt load, and the $20 billion in cost-cutting (this includes local, long distance, and Internet) on which the merger is based lead to one driving financial imperative for the combined company: an exclusive focus on high-margin corporate and global clients. This exclusive focus explodes the myth that this merger will lead to greater local competition.

To justify the increased risk associated with its leveraged financial condition, MCI and WorldCom must promise investors superior margins, earnings, and growth from the combined MCI-WorldCom. To meet investors' expectations, the new combined MCI-WorldCom's top management will be driven to invest its scarce capital resources solely in high margin businesses as the only strategy that makes sense.

According to WorldCom's top financial officers, the only business strategy that makes sense is one with a "religious focus" on serving high-margin business customers. As WorldCom's Chief Operating Officer John Sidgmore announced in the press the day after the merger announcement, "(We are) not in the consumer business. It's very difficult for us to find a way to make economic sense out of the advertising budgets, the customer service budgets, etc. required to be in the consumer business."

In response to the firestorm of negative reaction to this statement, Mr. Sidgmore attempted to qualify his statement the next day, noting that the plan to transfer residential customers was only a "possibility." But he repeated that the merged company would show little interest in the residential market. "Our religious focus is on the business customer. It is a jihad." (Washington Post, Oct. 3 and 4, 1997)

We share an additional concern. MCI and WorldCom in the past have evidenced a pattern of redlining minority communities in network deployment. A merged MCI-WorldCom would continue this pattern of discrimination.

For all these reasons, we believe that the evidence makes clear that a merger between MCI and WorldCom is not in the public interest. MCI and WorldCom have failed to meet the Commission's "burden of proof" standard to demonstrate that the merger is in the public interest. To the contrary, the merger would reduce competition. And it would result in higher prices for consumers and reduced deployment of advanced telecommunications services to most American consumers.

The Commission should not approve the merger.

Sincerely,

John J. Sweeney
President
AFL-CIO

Steve Protulis
Executive Director
National Council of Senior Citizens

Rev. Dr. Joan Brown Campbell
National Council of Churches

cc: Commissioner Susan Ness, Commissioner Gloria Tristani, Commissioner Michael Powell, Commissioner Harold Furchtgott-Roth